Duke Energy.

Progress Energy

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January 2, 2013

Jocelyn G. Boyd
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia, SC 29210

RE: Request for Approval for Duke Energy Carolinas, LLC and Progress Energy Carolinas, Inc. to Continue Participation in Credit Facility; PSC Docket No. 2011-158-E

Dear Mrs. Boyd:

In Order No. 2012-517 Approving Joint Dispatch Agreement ("JDA"), the Public Service Commission of South Carolina ("Commission") conditioned its approval of the JDA on, among other things, Duke Energy Carolinas, LLC ("DEC") and Progress Energy Carolinas, Inc.'s ("PEC") guarantee that PEC's and DEC's retail customers would receive pro rata benefits equivalent to those approved by the North Carolina Utilities Commission ("NCUC") in its Order ruling upon DEC's and PEC's Merger Application, including the protections of the revised Regulatory Conditions and Code of Conduct, to the extent allowable by South Carolina law. *Id.* at 41 ¶ 2.

Regulatory Condition 7.8 is related to DEC's and PEC's participation in a Credit Facility with their affiliates, and it provides:

> Borrowing Arrangements. Subject to the limitations imposed in Regulatory Condition 8.4[1], DEC and PEC may borrow short-term funds through one or more joint external debt or credit arrangements (a Credit Facility), provided that the following conditions are met:
>
> (a) No borrowing by DEC or PEC under a Credit Facility shall exceed one year in duration, absent Commission approval;

[1] Regulatory Condition 8.4 provides that "DEC and PEC may continue to participate in the Utility [Money Pool Agreement] and any other authorized joint debt or credit arrangement as provided in the Regulatory Conditions 7.7 and 7.8 only to the extent such participation is beneficial to their respective Retail Native Load Customers and does not negatively affect DEC's or PEC's ability to continue to provide adequate and reliable service at just and reasonable rates."

(b) No Credit Facility shall include, as a borrower, any party other than Duke Energy, DEC, PEC, Duke Indiana, Duke Kentucky, PEF, and, subject to the limitations described in this section, Duke Ohio:

(c) DEC's and PEC's participation in any Credit Facility shall in no way cause either of them to guarantee, assume liability for, or provide collateral for any debt relief or credit other than its own: and

(d) Duke Ohio may participate in a Credit Facility to the extent the above conditions are met and its generation assets remain dedicated to serving retail load in its service territory and subject to the Electric Security Plan (as approved in Case No. 08-920-EL-SSO, et al.), or subject to traditional utility regulation.

If after December 31, 2011, Duke Ohio's generation assets are no longer subject to serving retail load in its service territory and subject to the Electric Security Plan (as approved in Case No. 08-920-EL-SSO, et al.), then DEC and PEC shall be required to seek Commission approval within six months of such occurrence, in order to continue to participate in a Credit Facility in which Duke Ohio is or will be a participant. DEC and PEC shall discontinue such participation within six months after issuance of an order by the Commission denying such approval.

On November 18, 2011, DEC, Duke Ohio, Duke Energy Indiana, Inc., Duke Energy Kentucky, Inc., and Duke Energy Corporation filed a Credit Agreement ("Credit Facility") with the Securities and Exchange Commission. This Credit Facility allows for each participant to engage in stand-alone borrowing from the external lending parties to the Credit Facility, such as Wells Fargo Bank, National Association ("N.A."), Bank of America, N.A., the Royal Bank of Scotland, plc, etc. Under the Credit Facility, these lenders loan directly to DEC or to the participating affiliate of DEC. These are stand-alone loans; no borrower bears any financial responsibility for any loan made to any other borrower under the Credit Facility. A copy of the Agreement is attached.

On July 2, 2012, Duke Energy Corporation caused its subsidiaries, PEC, and Florida Power Corporation, d/b/a/ Progress Energy Florida, Inc., ("PEF") to execute joinder agreements to the Credit Facility described in the preceding paragraph. Notice of same was filed with the SEC on July 3, 2012.

STATUS OF DUKE OHIO'S GENERATION ASSETS

On June 20, 2011, Duke Ohio submitted an application to the Public Utility Commission of Ohio ("PUCO") for authority to establish a standard service offer in the form of a new Electric

Security Plan ("ESP"), pursuant to Ohio Revised Code (R.C.) 4928.143. Thirty-two interested parties intervened in the proceeding and the parties reached a stipulation that was approved by the PUCO on November 22, 2011 ("Stipulation").

The Stipulation provided for, *inter alia*, an ESP that included provisions wherein Duke Ohio will procure energy, capacity, and market-based transmission service, and market-based transmission ancillary services requirements for its standard service load, for the duration of the ESP (approximately three years, beginning January 1, 2012), through a competitive bid procurement, detailed in Duke Ohio's application. The competitive bid procurement plan includes a schedule for the procurement of full-requirements, load-following product for a term that is not less than quarterly or more than annually until a new standard supply offer is approved by the PUCO, through a descending-clock auction-based procurement process, with auctions to occur twice yearly. The first such auction was successfully held on December 14, 2011.

The Stipulation also contained a provision that Duke Ohio would transfer title, at net book value, to all its generation assets as soon as reasonably possible upon receipt of regulatory approvals, but in any event, no later than December 31, 2014.

PUCO's order approving the Stipulation also, with the consent of the stipulating parties, waived its rules relating to the sale or transfer of generating assets and approved the transfer.

Likewise, PUCO also approved full, legal corporate separation such that the transmission and distribution assets of Duke Ohio will continue to be held by the distribution utility and all the generation assets will be transferred to an affiliate. The affiliate to which the generation assets will be transferred may either be a "sister" company or a subsidiary of Duke Ohio. In either case, the Stipulation provides that following the transfer of the generation assets, Duke Ohio shall not, without prior PUCO approval: (1) provide or loan funds to, (2) provide any parental guarantee or other security for any financing for, and/or (3) assume any financial liability or responsibility for, any obligation of subsidiaries or affiliates that own generating assets.

On April 2, 2012, Duke Ohio and the other affected affiliates filed an application seeking authority under section 203(a)(1) and section 203(a)(2) of the Federal Power Act with the Federal Energy Regulatory Commission ("FERC") to transfer the assets to the affiliates. By order issued September 5, 2012, the FERC approved the request.

REQUEST FOR APPROVAL TO CONTINUE PARTICIPATION IN CREDIT FACILITY

DEC and PEC request approval to continue to participate in the Credit Facility. The Credit Facility supports liquidity, including serving as a backstop for the issuance of commercial paper, letters of credit and certain tax-exempt bonds. It is an efficient and cost-effective method for obtaining credit. As such, it reduces the operating costs of both PEC and DEC, thereby benefitting their South Carolina and North Carolina customers.

Significantly, DEC and PEC are not exposed to any financial risks stemming from Duke Ohio's participation in the Credit Facility. As discussed above, DEC, PEC, and their affiliates, including Duke Ohio, are standalone borrowers under the Credit Facility. While Duke Ohio, DEC, and PEC are parties to the Credit Facility, DEC and PEC do not take on any rights, liabilities, or obligations to Duke Ohio or to the external lender that makes a loan to Duke Ohio. If Duke Ohio were to default on a loan under the Credit Facility, DEC and PEC, and their other affiliates for that matter, would not bear any financial responsibility for Duke Ohio or to the external lender. Thus, DEC's and PEC's capital structure and cost of capital are not adversely affected by their participation in the Credit Facility.

Duke Energy Ohio is a member of the Credit Facility Agreement and, pursuant to an approved ESP having a term of January 1, 2012 through May 15, 2015, procures all of the supply needed to serve its standard service offer via a competitive bidding process. In addition, energy from Duke Energy Ohio's legacy generation assets is sold in the day-ahead/real-time market or through bilateral agreements. As such, consistent with Condition 7.8 of the Credit Facility Agreement, DEC and PEC seek Commission approval to continue their participation in said agreement through December 31, 2013. Continued participation after December 31, 2014, the date by which Duke Ohio plans to divest itself of its generation assets, shall be addressed in subsequent filings.

Consequently, for the reasons set forth above, DEC and PEC hereby ask the Commission for an Order Approving DEC and PEC's continued participation in a credit facility under Regulatory Condition No. 7.8 through December 31, 2014.

Sincerely,

Timika Shafeek-Horton/gw

Timika Shafeek-Horton
Deputy General Counsel

TSH/gw
cc: Parties of Record *(served via e-mail)*
Nanette Edwards, ORS
Courtney Edwards, ORS